

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name 38th District Court	County Macomb
Fiscal Year End June 30, 2006	Opinion Date July 13, 2006	Date Audit Report Submitted to State September 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

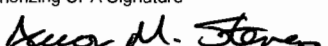
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517)-351-6836	
Street Address 3511 Coolidge Road Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**38th District Court Funds
City of Eastpointe, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

38th District Court Funds
City of Eastpointe, Michigan

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

Honorable Judge Norene Redmond
Chief Judge, 38th District Court
16101 Nine Mile Road
Eastpointe, Michigan 48021

We have audited the accompanying statement of assets and liabilities of the 38th District Court Funds (a component unit of the City of Eastpointe, Michigan) as of June 30, 2006. This financial statement is the responsibility of the District Court's management. Our responsibility is to an express opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statement presents only the 38th District Court Funds, and does not purport to, and does not, present fairly the financial position of the City of Eastpointe, Michigan, as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statement referred to above presents fairly, in all material respects, the financial position of the 38th District Court Funds as of June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statement. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The accompanying financial statement of the 38th District Court Funds does not present a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statement.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 13, 2006

BASIC FINANCIAL STATEMENTS

38th District Court Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006

		<u>Agency Funds</u>	
		<u>Depository</u>	<u>Bond, Restitution, and Trust</u>
ASSETS			
Cash		<u>\$ -0-</u>	<u>\$ 34,825</u>
LIABILITIES			
Due to:			
Others			
Bonds, restitution, and trust		<u>\$ -0-</u>	<u>\$ 34,825</u>

See accompanying notes to financial statements.

38th District Court Funds
City of Eastpointe, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the 38th District Court Funds (the "District Court") has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The District Court is governed by one elected judge. There are no component units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District Court's more significant accounting policies are described below.

1. Reporting Entity

The accompanying financial statement presents only the Agency Funds of the 38th District Court, and does not purport to, and does not, present fairly the financial position of the City of Eastpointe, Michigan, as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, nor does it include other revenue sources attributable to the District Court's operations (i.e., judicial salary subsidy, juror reimbursements, drunk driving caseflow, and drug caseflow reimbursements). The receipts and disbursements of the Agency Funds of the District Court are accounted for with a separate set of self-balancing accounts that comprise its assets and liabilities.

2. Basis of Presentation

The funds of the 38th District Court are Agency Funds. The financial activities of the funds are limited to fine and fee collections that are transferred to the Funding Unit (City of Eastpointe) when processed and bonds and restitution collections that are subsequently returned or paid to third parties by the District Court. The accumulation of fine and fee collections and the ultimate payment to the applicable agencies are the responsibility of the Funding Unit. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

The operations of the District Court are included as a separate activity in the General Fund of the City of Eastpointe. The District Court is a component unit of the City of Eastpointe and is included in the basic financial statements of the City as of and for the year ended June 30, 2006.

3. Cash

The District Court Funds' cash consists of checking accounts, with balances totaling \$34,825 at June 30, 2006.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the District Court is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

38th District Court Funds
City of Eastpointe, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District Court's deposits was \$34,825 and the bank balances totaled \$231,132. As of June 30, 2006, the bank accounts were insured by the FDIC for \$100,000 and the amount of \$131,132 was uninsured and uncollateralized.

OTHER SUPPLEMENTARY INFORMATION

38th District Court Funds

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2006

Depository Account	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
ASSETS				
Cash				
Fines and costs	\$ 217,137	\$ 2,467,413	\$ 2,684,550	\$ -0-
Interest	89	3,674	3,763	-0-
	<u>\$ 217,226</u>	<u>\$ 2,471,087</u>	<u>\$ 2,688,313</u>	<u>\$ -0-</u>
LIABILITIES				
Due to:				
State of Michigan				
Department of Treasury	\$ 43,884	\$ 511,819	\$ 555,703	\$ -0-
Secretary of State	2,070	32,444	34,514	-0-
Macomb County	1,815	62,622	64,437	-0-
City of Eastpointe				
General receipts	169,368	1,860,030	2,029,398	-0-
Interest	89	3,674	3,763	-0-
Others				
ABN/AMBRO	-	498	498	-0-
	<u>\$ 217,226</u>	<u>\$ 2,471,087</u>	<u>\$ 2,688,313</u>	<u>\$ -0-</u>
Bond, Restitution, and Trust Account				
ASSETS				
Cash	<u>\$ 85,259</u>	<u>\$ 837,673</u>	<u>\$ 888,107</u>	<u>\$ 34,825</u>
LIABILITIES				
Due to others (open bonds)	<u>\$ 85,259</u>	<u>\$ 837,673</u>	<u>\$ 888,107</u>	<u>\$ 34,825</u>

Principals

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MANAGEMENT LETTER

Honorable Judge Norene Redmond
Chief Judge, 38th District Court
16101 Nine Mile Road
Eastpointe, Michigan 48021

Dear Judge Redmond:

As you know, we have recently completed our audit of the records of the 38th District Court Funds as of June 30, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Additional segregation of duties and/or greater supervisory review and oversight should be considered with regard to the process of deleting case file records.

During the course of our audit, we noted that only the Court Administrator has the ability to delete case file records from the automated system and is also responsible for reviewing case file deletion reports, preparing bank deposits, and performing bank reconciliations. This issue was noted and reported in our audit comments last year.

Paragraph C5 of section 6-05, Michigan Court Administration Reference Guide, states: "Employees who are involved in opening the mail, receipting payments, balancing the accounting records and performing the bank reconciliation should not have the capability to delete case files, make adjustments to payment records or modify court orders in the automated system."

We suggest that employees be restricted as to the functions they are able to perform in the system. Only those supervisors who are not involved in the mail opening, receipt, disbursement, daily balancing, and bank reconciliation processes should have the ability to delete case files. Additionally, the court should establish procedures that will provide for the independent supervisory review and monitoring of reports that reflect case files that have been deleted.

Court management must realize and accept that a greater risk in safeguarding assets will exist if the Court Administrator continues to be involved in the case file deletion process and is responsible for the review of deleted case file reports, preparation of bank deposits, and performing bank reconciliations.

2. Additional segregation of duties and/or greater supervisory review and oversight should be considered with regard to the process of account adjustments.

During the course of our audit, we noted that only the Court Administrator has the ability to make adjustments to case file records in the automated system is also responsible for reviewing account adjustment reports, preparing bank deposits, and performing bank reconciliations. This issue was noted and reported in our audit comments last year.

Paragraph C5 of section 6-05, Michigan Court Administration Reference Guide, states: "Employees who are involved in opening the mail, receipting payments, balancing the accounting records and performing the bank reconciliation should not have the capability to delete case files, make adjustments to payment records or modify court orders in the automated system."

We suggest that employees be restricted as to the functions they are able to perform in the system. Only those supervisors who are not involved in the mail opening, receipt, disbursement, daily balancing, and bank reconciliation processes should have the ability to make adjustments to case file records in the automated system. Additionally, the court should establish procedures that will provide for the independent supervisory review and monitoring of reports that reflect case files that have been adjusted.

Court management must realize and accept that a greater risk in safeguarding assets will exist if the Court Administrator continues to be involved in the case file adjustments process and is responsible for the review of account adjustment reports, preparation of bank deposits, and performing bank reconciliations.

3. Completed bank reconciliations should be reviewed by District Court management.

During the course of our audit, we noted that completed bank reconciliations are not periodically reviewed by District Court management.

Paragraph E4(e) of section 6-05, Michigan Court Administration Reference Guide, states: "In order to properly monitor the completion of bank reconciliations on a current basis and to be aware of any unreconciled differences, completed bank reconciliations should be periodically reviewed by court management."

We suggest that completed bank reconciliations be periodically reviewed by appropriate court management. The review should be documented with the reviewer's initials and date of review and be retained for audit.

4. Bank accounts should not be reconciled by an employee who is an authorized signer on them.

During the course of our audit, we noted that the employee who performs the bank reconciliations is presently an authorized check signer on the bank accounts being reconciled.

Paragraph E4(b) of section 6-05, Michigan Court Administration Reference Guide, states: "In addition, the person who performs the bank reconciliation should not be an authorized check signer on the bank accounts being reconciled."

We suggest that bank reconciliations be performed by an employee who is not an authorized check signer on the bank accounts being reconciled.

5. The District Court should consider a policy requiring employees in positions of trust to take annual vacations during which time their duties would be performed by other personnel.

The District Court currently does not require employees in a position of trust to take annual vacations, however there is a "use or lose" policy in place whereby employees forfeit used vacation time on an annual basis. This issue was noted and reported in our audit comments last year.

Paragraph D3 of section 6-05, Michigan Court Administration Reference Guide, states: "In addition, employees in positions of trust should be required to take annual vacations during which time their duties are performed by other personnel."

We suggest the District Court consider implementing a policy requiring employees in positions of trust to take annual vacations, during which time their duties should be performed by other personnel.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated July 13, 2006.

This report is intended solely for the use of the Chief Judge and management of the 38th District Court and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 13, 2006